



ANALYSIS OF THE GROWTH OF SERVICES SECTOR IN INDIA FROM THE PERIOD OF 1950 TO 1980.

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KEYWORDS

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ABSTRACT

Economists often consider that the trajectory of growth in the services sector started only after 1980s (as a result of economic liberalization). Consequently, the role that services sector played in the economic growth during 1950s to 1980s is ignored. This paper studies the growth of services sector during the period of 1950 to 1980. It is found that the growth rate of services sector surpassed the growth rate in agriculture and industries before the liberalization period. Additionally, this paper explores the various reasons that led to a high growth rate in the services sector during 1950 to 1980 which includes policy changes after the British rule, special importance given to the social sectors, nationalization of banks and urbanization. Lastly, it is observed that rise in services sector leads to incorrect estimation of Gross Domestic Product, unemployment in the economy and has an inflationary tendency.

I. INTRODUCTION

The service sector of the economy is one of the three economic sectors, the others being the secondary sector and the primary sector. The general definition of the service sector is producing a "service" instead of just an end product as in the case of the secondary sector. Services are important in Indian economy because they are the facilitators of domestic growth (even though much debate has been raised to this argument). They support the entire goods production process. They contribute to the job creating process (although in India, the shift of labour from agriculture to services is very low). It is important for the social and moral welfare of an economy to enhance the availability as well as the affordability of services such as education, health, energy, etc. Economists often focus on the rapid increase in services sector since 1980s. High growth rate in the Indian economy is said to be caused by this sector. However, we often neglect the role of services before 1980. The contribution of services to the Gross Domestic Product (GDP) of India was sizable even before the period of liberalization. Against this backdrop, this paper analyzes the growth of services sector from the period of 1950 to 1980 (i.e pre liberalization). Further, it traces out the reasons for high rate of growth in specific sectors of services and the impact the growth had on the Indian economy.

II. COMPOSITION AND GROWTH OF SERVICES IN INDIA: 1950 to 1980

There is no question that the growth of services sector has been phenomenal. We find from Table 1 that the increase in the growth rates of services is accompanied with a fall in the growth rates in agricultural and industrial sector since 1950. It is also true that services has grown exceptionally well after 1980s. There is a 2 percentage point increase in the growth rate during 1970-80 to 1980-90. However, when we compare the period 1950 to 1980 and 1980 to 2001, we see that growth rate of the services sector surpassed the growth rate of both the agricultural and industrial sector during 1970-80. Therefore, we can say that the turning point in services sector happened before the liberalization period. Therefore, saying that the "revolution" in service sector occurred after the economic reforms is not entire correct.

Table 1: Sectoral Growth Performance of the Indian Economy (in Percentage)

Years	Agriculture	Industry	Services	GDP
1950-60	3.0	6.2	4.3	3.9
1960-70	2.3	5.5	4.8	3.7
1970-80	1.5	4.0	4.4	3.1
1980-90	4.4	7.4	6.4	5.8
1990-01	2.6	5.9	7.3	5.7

Source: Rath and Rajesh (2006).

On an average services sector grew at a rate of 4.5% from 1950 to 1980. The banking sector grew the most during the period of 1950 to 1970. The growth rate of banking sector was as high as 7.2% (Gordon and Gupta, 2003). This is the time when the investment in infrastructure was crucial for the growth of the economy. Other services such as community services, public administrative and business sector grew but at a lower rate.

It is therefore evident that the study of services sector during 1950 to 1980 is an important exercise from an economist point of view. Hence, we delve further to understand the reason for this phenomenal growth rate from this period and the impact that it had on the Indian economy.

III. FACTORS RESULTING IN GROWTH OF SERVICES FROM 1950 to 1980

Several factors were responsible for the services sector boom in the Indian economy since independence. Some of them are listed below.

a. INDEPENDENCE FROM THE BRITISH RULE

India had to begin its upward economic climb in 1947 from a very low growth level. Since then India has achieved a high rate of growth in agriculture and industry. This led to the demand for services as well particularly in the areas of infrastructure, transportation, storage, packaging, etc. High demand for agricultural and manufactured goods led to increase in the imports of the country. India's import bill further increased due the heavy industry strategy and import substitution adopted during the second five year plan. This led to a rise in trade services as well. Westernized life-style was established in India by introducing English language and English schools during the British rule. Hence demonstration effect led to demand for services such as tourism and restaurants in India which were earlier negligible.

b. IMPROVEMENT IN SOCIAL SECTORS

During the British rule, India faced severe challenges in terms of education, health and other social aspects. Only after independence, was the social aspect taken into considerations by the leaders of our country particularly in the areas of health and education. The education system saw the most significant changes. Constitutional amendments were made to provide free and compulsory education to all children till the age of 14. This was responsible for the increase in educational services in India. Similar progress had been made in the health services as well. Mortality rate was quite high just after independence and India lacked in the areas of sanitation as well. With time, by technological advancements and medical institutions, there were improvements in the health services.

c. RISE IN BANKING FACILITIES

Just after independence the banking system was mainly concentrated in the urban areas. In order to correct that the Imperial Bank of India was converted into the State Bank in 1955. Further control on banks took place in 1967 and nationalization of 14 banks occurred in 1969. Nationalization of banks was complemented with the policy of financial inclusion which aimed to provide financial facilities and promote banking habits to the rural areas as well. Nationalization of banks and financial inclusion together were responsible for the financial services to grow in leaps and bounds.

d. URBANIZATION

During the period of 1950 and 1980, urbanization played an important role in increasing the growth rate of services sector. As per capita income rises in an economy, the demand for non-agricultural goods rises. As a result, the demand for labour for non-agricultural activities also rises. So, more and more population moved towards the urban region where industries were located. This leads to increase in services as well since urban areas are in need for more services (in terms of defence, administrations, health, education, etc).

IV. ISSUES RELATED TO SERVICES SECTOR

The significance of services in an emerging economy like India is immense. The growth of services walks hand in hand with the overall development. However, the high growth rate of the services sector has raised quite a few issues in the economy. In the following, few of those issues are discussed briefly.

a. PROBLEMS IN MEASUREMENT

It is very difficult to find the value for services which are directly consumed such as defense, doctors, teachers, etc. This often leads to overestimate or underestimate the contribution of services to the economy. Furthermore, a major part of the services sector comprises of unorganized sector which makes it very difficult to measure (since it is easier to hide valuation in this sector). Wastage, underutilization of resources, corruption and spurious consumption of services also leads to overestimation of the contribution of services to the GDP. Moreover, if we calculate the negative social implication of services (in terms of environmental degradation and corruption), the growth rate of services would turn out to be much lower than predicted.

b. UNEMPLOYMENT

If we take in consideration, the share of sectors in the economy, it is found that the share of agriculture falls continuously whereas the share of manufacturing and tertiary rises. The share of agriculture decreases from 60.5% in 1950 to 41.5% in 1980 (Table 2). We also find manufacturing share increasing during the period 1950 to 1980. But the rise is not as much as the tertiary sector. It rises from 28.8% to 42.1%, almost doubling its share in the economy. The table below shows the movement of sectoral shares in Net Domestic Product (NDP).

Table 2: Movement of Sectoral Shares in Net Domestic Product (at factor cost at 1970-71 prices) from 1950 to 1980

	1950-51	1960-61	1970-71	1980-81
Agriculture	60.5	55.7	49	41.5
Mining and manufacturing	10.7	12.9	14.6	16.4
Tertiary	28.8	31.4	36.4	42.1

Source: Mohan (1985).

But the striking feature in Indian economy is that although output shares have changed profoundly, the same cannot be said about the changes in the employment pattern in the sectors. In agriculture, we see that the employment share has remained constant. Similarly although the services output has risen, the employment share of services does not have the same effect. In 1960's, when the GDP share of the services sector increases from 28.8% to 31.4% (Hansda, 2003), the employment share was 18.1% only. Similarly, in 1970-71, the employment share rose to

20.0%, but then the services consisted of 36.4%. The employment share in services in 1980-81 actually declined from the previous year to 18.9%. Thus, while activity in Indian economy has shifted to services, employment creation in services had lagged far behind.

c. INFLATIONARY PRESSURE

Services also affect inflation rate in an economy. A high growth in services without a relative growth in manufacturing leads to a divergence in the income growth in the two sectors. This creates a demand and supply gap in consumer goods and hence has an inflationary impact.

V. CONCLUSION

In this paper, we look into the composition and growth of services sector in India from the period of 1950 to 1980. Since independence services sector has grown rapidly particularly in the area of financial services (which is because of the government policies of nationalization of banks and financial inclusion). Other reasons which led to this boom in the services sector are changes in policies after independence (particularly by giving importance to social sectors) and urbanization. However, services sector has certain negative impact of the economy as well. It is very difficult to value the contribution of services in an economy which leads to either undervalue or overvalue GDP estimates. Services sector leads to unemployment and has inflationary pressure on the economy as well.

Economists such as Kuznets and Chenery suggests that economic transition in a developing economy should be associated with a decline in the proportion of GDP generated by the primary sector and simultaneously first a rise in the contribution from industrial sector and then an increasing proportion of GDP from services. The path of development should move from agriculture to industries and then services. In this context, it is often argued that India does not follow the traditional development path. India's services sector developed faster than the industrial sector particularly after 1980s. Consequently, economic liberalization has brought about a services led economic growth. This is often considered to be troubling for the economy since it violates the development path which other countries have followed. However, we are missing the point that services sector has always contributed a higher proportion of GDP than agriculture and it overtook industrial contribution before 1980s. Therefore, it is not economic liberalization that is responsible for the unbalanced development transition.

Few economists have raised doubts about the sustainability of service led growth. It has been observed that employment in services is mainly concentrated in the unorganized sector, personal services and public administration. These activities have very limited scope for improvement in terms of productivity. Further, these sectors are not labour intensive. In a labour abundant economy like India, growth of an economy should not be led by services, rather than going through the intermediate manufacturing might not benefit the society. Consequently, economists argues that when a developing country has scarce resources, economy should focus on development strategy giving priority to industry and not services.

VI. REFERENCES

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